

Message Text

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INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 USPS-01 OC-05 CCO-00 DODE-00 PA-01 PRS-01 /088 W

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R 242206Z OCT 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 7910

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SUBJ DEVELOPMENTS FOLLOWING ANNOUNCEMENT OF NEW

GOC ANTI-INFLATION POLICY

REFS A) OTTAWA 3931, B) OTTAWA 3965

1. SUMMARY. SINCE OCTOBER 13 WHEN PM TRUDEAU ANNOUNCED BROAD OUTLINES OF GOC POLICY TO FIGHT INFLATION, FINMIN MACDONALD TABLED WHITE PAPER ON PROGRAM GUIDELINES; PARLIAMENT CONTINUED TO DEBATE LEGISLATION ESTABLISHING CONTROLS AND ADMINISTRATIVE MACHINERY; ANTI-INFLATION REVIEW BOARD SET UP; MINISTERS BEGAN HARD SALES PITCH TO VARIOUS GROUPS (WITH LIMITED SUCCESS); MEDIA EDITORIAL COMMENT REMAINED MIXED; CONFUSION DEVELOPED OVER SCOPE OF PROGRAM (FED BY APPARENTLY CONFLICTING STATEMENTS OF SOME MINISTERS AND NEW REVIEW BOARD CHAIRMAN AND HIS ASSISTANT); AND MOST UNION LEADERS SPEAKING FOR PUBLIC CONSUMPTION CLAIMED PROGRAM WAS INSUPPORTABLE. MOST DRAMATIC DEVELOPMENT WAS STRIKE BY INSIDE POSTAL WORKERS WHICH WILL TIE UP ENTIRE POSTAL SYSTEM. WITHOUT CLEAR INDICATION OF DIRECTION OF BOARD'S REVIEW PROCESS AND HINTS THAT

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GOC MIGHT MODIFY ORIGINAL GUIDELINES, EMBASSY CAN ONLY

SPECULATE ON EFFECTS OF PROGRAM ON U.S. INTERESTS.
HOWEVER, SHAKY BEGINNING OF PROGRAM RAISES QUESTIONS
ABOUT ITS FUTURE SUCCESS. END SUMMARY.

2. PM TRUDEAU'S ANNOUNCEMENT ON OCTOBER 13 THAT GOC
WAS INSTITUTING MOST SWEEPING CONTROLS ON ECONOMY
SINCE WORLD WAR II WAS GREETED BY MOST MEDIA COMMENTATORS
WITH "IT'S ABOUT TIME" ATTITUDE. IMMEDIATE LABOR
REACTION WAS NEGATIVE, WHILE BUSINESS LEADERS VOICED
GUARDED SUPPORT. PC OPPOSITION WAS LARGELY FAVORABLE
BUT NDP LEADERS ATTACKED PROGRAM AS BEING BIASED AND
INEQUITABLE BECAUSE OF ITS DETAILED CONTROLS ON WAGE
SETTLEMENTS WITH NO CORRESPONDING SPECIFICS ON PRICES.

3. WITH INTRODUCTION OF LEGISLATION ON OCTOBER 16,
PC OPPOSITION GROUP CONTINUED MAINLY SUPPORTIVE OF
ANTI-INFLATION PROGRAM (WITH NOTABLE EXCEPTION OF
JOHN DIEFENBAKER WHO DENOUNCED IT AS EXCESSIVE GOVERNMENT
INTERFERENCE IN ECONOMY), BUT CALLED FOR CHANGES
IN LEGISLATION AT GOVE PARLIAMENT GREATER SAY IN
SETTING PARAMETERS AND DURATION OF PROGRAM. NDP
MPS CONCENTRATED THEIR CRITICISM ON WAGE GUIDELINES
AND REPEATEDLY CALLED FOR SPECIFIC CONTROLS AND/OR ROLLRACKS
IN PRICES.

4. FORMER ITC MINISTER JEAN LUC-PEPIN, CHAIRMAN OF
ANTI-INFLATION REVIEW BOARD AND HIS ASSISTANT, FOOD PRICES
REVIEW BOARD CHAIRMAN BERYL PLUMPTRE, HELD PRESS CONFERENCE
SHORTLY AFTER THEIR APPOINTMENT AND PROCEEDED TO CONFUSE
REPORTERS ON DIRECTION ANTI-INFLATION BOARD WOULD ASSUME.
REPORTERS GLEEFULLY NOTED PEPIN'S REMARKS ON REVIEWING
PROFESSIONAL ATHLETES' SALARIES AS A PRIME CONSIDERATION
OF BOARD AND PLUMPTRE'S COMMENTS ON THE INFLATIONARY
ASPECTS OF THE GOVERNMENT'S AGRICULTURAL MARKETING
BOARDS. (REPORTERS LATER HELPED FUEL OLD FUED BETWEEN
PLUMPTRE AND AGRIC. MIN. WHELAN BY BAITING HIM WITH
PLUMPTRE'S COMMENTS. WHELAN MAINTAINED BOARDS WERE
NOT CONTRIBUTORY CAUSE OF INFLATION BUT PROMISED MEET
WITH PEPIN.)

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5. DURING WEEK OF OCTOBER 20, GOC MINISTERS BEGAN
FORAYS TO VARIOUS CANADIAN CITIES TO EXPLAIN AND SELL
ANTI-INFLATION PROGRAM. PM TRUDEAU HAD MODEST SUCCESS
IN WINNIPEG AND REGINA WITH BUSINESS AUDIENCES BUT NONE
WITH LABOR, REFLECTING NTIONAL MOOD THESE GROUPS.
LABOR MINISTER MUNRO, ADDRESSING CONFERENCE OF PUBLIC
SERVICE UNION (CUPE) IN TORONTO, GOT EXTREMELY HOSTILE
RECEPTION.

6. CLOSED-DOOR MEETING OF PROVINCIAL FINANCE AND ECONOMIC MINISTERS, OCTOBER 22-23, CHAIRED BY FINMIN MACDONALD, WAS PARTLY SUCCESSFUL FROM GOC POINT OF VIEW, AND MACDONALD TOLD PRESS MOST PROVINCES AGREED SUPPORT FEDERAL PROGRAM. HOWEVER, CONTRARY TO GOC EXPECTATIONS, ONLY QUEBEC ANNOUNCED IT WAS ESTABLISHING PROVINCIAL REVIEW BOARD, AND SEVERAL PROVINCIAL MINISTERS STATED THEY REQUESTED CHANGES IN GUIDELINES WHICH MACDONALD PROMISED PUT BEFORE CABINET.

7. AS REPORTED IN LOCAL PRESS, PM TRUDEAU TOLD WINNIPEG AUDIENCE THAT IF WORKERS RECEIVED SETTLEMENTS ABOVE WAGE GUIDELINES, GOC "WOULD TAX AWAY" THESE EXCESS BENEFITS. QUESTIONED ABOUT TRUDEAU'S REMARKS, ACTING PM SHARP TOLD PARLIAMENT THAT ADDITIONAL INCOME TAXES WOULD NEED PARLIAMENTARY ACTION. TO ADD TO THIS CONFUSION, FINMIN MACDONALD WAS REPORTED TO BE CONSIDERING RAISING MAXIMUM AMOUNT (C\$600 PER YEAR) LOWER-INCOME WORKERS COULD RECEIVE UNDER GUIDELINES. MACDONALD COMPOUNDED CONFUSION FOR COMPANIES BY INDICATING TO PRESS THAT FREEZE ON DIVIDENDS MIGHT REQUIRE NO PAYOUT FOR FOURTH QUARTER THIS YEAR.

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8. PEPIN ALSO ADDED TO UNCERTAINTIES REGARDING ADMINISTRATION OF PROGRAM BY SENDING LETTER TO 1,500 COMPANIES COVERED BY GUIDELINES INFORMING THEM THAT "BOARD WILL REQUIRE PRIOR NOTIFICATION OF PRICE INCREASES IN SOME AREAS". AS REPORTED IN GLOBE AND MAIL OF OCTOBER 18, PRESS RELEASE ON LETTER STATED THAT DETAILS WILL BE ISSUED LATER.

9. POSTMASTER GENERAL MACKASEY REFUSED BUDGE FROM MOST RECENT GOVERNMENT OFFER ON WAGE SETTLEMENT FOR INSIDE POSTAL WORKERS (WHICH IS SAME AMOUNT LETTER CARRIERS SETTLED FOR AND THEREFORE WOULD PROBABLY FALL WITHIN WAGE GUIDELINES), AND POSTAL WORKERS WENT ON STRIKE MIDNIGHT OCTOBER 20. STRIKE HAS ALMOST COMPLETELY CLOSED DOWN POSTAL SYSTEM, AND GOC HAS REJECTED OPPOSITION MPS' REQUEST INTRODUCE BACK-TO-WORK LEGISLATION AND/OR GOC INITIATIVE REOPEN NEGOTIATIONS.

10. LABOR OPPOSITION TO WAGE CONTROL ASPECT OF ANTI-INFLATION PROGRAM CONTINUES TO MOUNT AND WILL BE REPORTED IN LATER SEPTEL. CUPE CONVENTION, WHICH REFUBBED LABOR MIN. MUNRO, HAS VOTED FOR ACTIVE LIMITED OFFICIAL USE

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OPPOSITION TO PROGRAM.

11. COMMENT: EMBASSY IS UNABLE TO ANALYZE AT THIS JUNCTURE WHAT EFFECT GOC ANTI-INFLATION PROGRAM WILL HAVE ON U.S. INTERESTS. CLEARLY U.S. FIRMS IN CANADA WILL BE SUBJECT TO GUIDELINES AND YET-TO-BE ANNOUNCED REVIEW BOARD REGULATIONS AND CAN REASONABLY EXPECT NON-DISCRIMINATORY TREATMENT. AT LEAST FOR NOW PROGRAM'S MOST ONEROUS FEATURES FOR THESE FIRMS (AND CANADIAN COUNTERPARTS) ARE UNCERTAINTIES AS TO SCOPE OF PROGRAM AND NECESSITY TO KEEP RECORDS FOR INCREASED PRICE JUSTIFICATIONS.

12. EMBASSY CAN FORESEE GATHERING MOMENTUM OF PROBLEMS IF, AS EXPECTED, DISTORTIONS DEVELOP IN ECONOMY SINCE DOMESTIC PRICES ARE SUBJECT TO CONTROL AND IMPORT AND EXPORT PRICES UNFETTERED. COPING WITH POSSIBLE TWO-TIER PRICING SYSTEM HAS ALREADY BEEN CONSIDERED BY GOC AUTHORITIES (SEE PARA. 2K REFTEL B), AND U.S. COMPANIES ENGAGED IN INTRA-COMPANY TRANSFERS ACROSS BORDER COULD HAVE DIFFICULTIES WITH CANADIAN CONTROL MECHANISM.

13. SINCE GOVERNMENT IS ANXIOUS TO "SET EXAMPLE" OF ITS GOOD FAITH IN CONTROLLING PRICES BY HAVING

REVIEW BOARD MAKE EARLY DECISION REJECTING A PRICE INCREASE, UNFORTUNATE SITUATION COULD DEVELOP IF U.S.- CONTROLLED FIRM WERE FIRST TO BE PENALIZED. CATCHING U.S. FIRM ATTEMPTING TO CIRCUMVENT ANTI-INFLATION FIGHT WOULD STRENGTHEN ULTRA-NATIONALISTS' ARGUMENTS AGAINST FOREIGN, PARTICULARLY AMERICAN, DIRECT INVESTMENT IN CANADA (SINCE ABOUT 58 PERCENT OF CANADIAN MANUFACTURING INDUSTRY IS FOREIGN-CONTROLLED, WITH VAST MAJORITY U.S. FIRMS, ODDS FAVOR U.S. COMPANY BEING FIRST TO BE HIT BY ADVERSE BOARD RULING.)

14. IN ADDITION TO CONFUSION SURROUNDING FIRST TWO WEEKS OF PROGRAM, MOST OMINOUS DEVELOPMENT WAS LABOR'S ADVERSE REACTION AND GROWING DETERMINATION TO REJECT CONTROLS. CONFRONTATION BETWEEN GOC AND ORGANIZED LABOR COULD RESULT IN EXTREMELY TENSE SITUATION AND LIMITED OFFICIAL USE

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JEOPARDIZE GOVERNMENT'S ATTEMPT CONVINCE CANADIAN POPULACE TO SUPPORT PROGRAM.

15. FROM GOC POINT OF VIEW, FAILURE OF MOST PROVINCES TO SET UP THEIR OWN REVIEW BOARDS IS HIGHLY UNFORTUNATE. THIS WILL PLACE ONUS FOR MOST UNPLEASANT DECISIONS ON FEDERAL AGENCY AND POSSIBLY OVERWHELM IT WITH PAPER-WORK. (ALREADY NATIONAL REVENUE LOCAL OFFICES ARE DELUGED WITH COMPLAINTS AND REQUESTS FOR INFORMATION.)

16. PM TRUDEAU'S PERFORMANCE ON HUSTINGS THIS WEEK WAS PERPLEXING AND DID NOT CREATE ATMOSPHERE OF CONFIDENCE IN SUCCESS OF PROGRAM. FROM PUBLISHED REPORTS OF HIS REMARKS IN WINNIPEG (ACCORDING TO PRESS, HE DID NOT GIVE PREPARED SPEECH BUT LECTURED AUDIENCE WITHOUT TEXT), HE SEEMED TO BE SAYING TO WORKERS THAT THEY COULD BREAK LAW BY SETTLING FOR HIGHER AMOUNTS THAN GUIDELINES PERMITTED, BUT THAT GOVERNMENT WOULD TAKE AWAY "EXCESS" THROUGH INCREASED TAXATION. (PM AIDE MICHAEL KIRBY TOLD POLCOUNSELOR TRUDEAU "SHOULD NOT HAVE SAID THAT" AND THAT WHAT HE MEANT BY "TAXES" WERE THE PENALITES PROVIDED IN THE LEGISLATION FOR NON-COMPLIANCE.) TRUDEAU ALSO APPARENTLY THREATENED COMPLETE CONTROL OF ECONOMY IF THIS PROGRAM WERE UNSUCCESSFUL. LATER IN REGINA, PRESS REPORTED TRUDEAU INDICATED PROGRAM MIGHT BE RESCINDED BEFORE EXPECTED TERMINATION DATE.

17. SUMMING UP, EMBASSY BELIEVES PROGRAM IS OFF TO SHAKY START WITH ONLY VISIBLE SUCCESS THUS FAR THE LIMITED SUPPORT FROM PROVINCIAL AUTHORITIES, SOME BUSINESS LEADERS AND MOST PC OPPOSITION. CANADIANS

WILL NEED MORE EVIDENCE THAT CAPABLE HANDS ARE GUIDING
GOC EFFORTS CONTROL INFLATION BEFORE PUBLIC SUPPORT
BECOMES APPARENT. ALTHOUGH TRUDEAU HAS WARNED
AUDIENCES THAT PROGRAM NOT DESIGNED TO "LOWER PRICE
OF CAN OF BEANS", PUBLIC MAY EXPECT SUCH RESULTS.
THUS, WHEN PRICES CONTINUE TO RISE, PUBLIC'S DIS-
ENCHANTMENT WITH LIMITED CONTROLS AND LABOR
RESISTANCE MAY FORCE GOVERNMENT INTO EXTREME ACTION
FORETOLD BY TRUDEAU THIS WEEK IN WINNIPEG.
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Message Attributes

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Disposition Authority: MorefiRH
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
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